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SIPDIS

SENSITIVE

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SUBJECT: NEPAL: NEW FINANCE MINISTER OUTLINES PRIORITIES

1. (U) This cable contains business-sensitive information and should be handled accordingly.

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Summary  
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2. (SBU) Summary. On October 25, the Ambassador and USAID Director met with Nepal's newly appointed Finance Minister. The Finance Minister articulated the immediate priorities of his Ministry and highlighted the broader mandate of the interim government to deliver services and hold elections. He expressed eager support for USAID's first Conflict Mitigation Program project, the completion of a rural road in the western hills through quick-dispersing payments for local labor. The Finance Minister also requested assistance from the USG on providing breathing space to Nepal's textile exporters leading up to the elimination of the Multi-Fiber Agreement. End Summary.

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Establishing Priorities  
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3. (U) the Ambassador, accompanied by USAID Director, Joanne Hale and ECONOFF, met with Badri Prasad Shrestha, the newly appointed Finance Minister, on October 25. The Finance Minister explained that the primary goals of the interim cabinet are to deliver effective government services, establish peace, and hold elections. The Finance Minister explained the need to support these efforts with an appropriate economic package that efficiently delivers such services as sanitation, medical care, security, and development.

4. (SBU) The Finance Minister is developing a reform package to present to the cabinet and the people that will address three priorities: fiscal balance, anti-corruption, and privatization and administrative reform. As described, many of the specifics of these priorities mutually support one another. The package should meet his goal of accelerated implementation and meet conditions set by the Asian Development Bank, the World Bank, and the International Monetary Fund. He plans to unveil this package along with his assessment of the economy.

5. (SBU) The Finance Minister identified a few specific items of action: strengthening the Nepal Rastra Bank (central bank) to provide it greater autonomy, and the immediate shedding of half a dozen public enterprises through privatization or closure of non-performing enterprises. While he sees these items as important components of his priorities, no further details were provided.

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Security and Donor Assistance  
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6. (SBU) The Ambassador welcomed the priorities of the Finance Minister and offered the assistance of the USG to help accomplish them. As a first step, the Ambassador offered a briefing on the security assistance to be provided by the USG in order to coordinate it with the budget requests made by the Nepali security forces. The Finance Minister expressed appreciation for the offer and explained that U.S. assistance, by meeting a significant portion of Nepal's urgent security needs, would help to free up funding for the development portions of the budget--which he termed as negligible this year.

7. (U) The USAID Director took the opportunity to press the Finance Minister for the quick approval of the first project under USAID's Conflict Mitigation Program, the Gulmi Road--a 15.7 km road project linking 21 Village Development Committees in the northern reaches of Gulmi, from Indergauda to Chhaldi River, in Nepal's mid-Western hills. The effort completes a project initiated by the EU and represents the first USAID effort with funding from DFID, the British development agency. The Finance Minister was encouraged by the low-technology/high-employment approach, which will employ 600 people, roughly 20 percent of whom will be women. He hoped that other donors could duplicate this effort across the country. He instructed Joint Secretary for Foreign Aid, Madhiv Ghimire, to process the letter of implementation as soon as possible to facilitate

this effort.

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Commerce and Trade  
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18. (SBU) The Ambassador raised several commercial issues with the Finance Minister regarding some of the difficulties U.S. businesses are experiencing in Nepal. He highlighted the difficulties of the private Bhoti Koshi/Panda Energy project regarding duty waivers for replacement parts and the extra-contractual deductions taken on payments for energy delivered. He also raised the delay in processing the duty assessment of the Lotus Energy REVA electric cars (product of a Indian-American joint venture in Hyderabad) that have been held in customs for eight months. Finally, the Ambassador expressed the need to continue infrastructure investment to meet the needs of a growing population, tying it to the timely completion of the rural telephone project, in which STM Wireless of California is the major supplier. The requests of the Ambassador were welcomed by the Finance Minister, who stated that he would look into them as part of fostering cooperation between the U.S. and Nepal.

19. (SBU) In a similar vein, the Finance Minister requested assistance from the U.S. in providing breathing space through duty free access (similar to AGOA) for textile products until expiration of the Multi-Fiber Agreement in 2005. The breathing space will allow the industry to restructure in order to be more competitive. The Finance Minister discussed the creation of a lobby in Washington to argue the merits of Nepal's case. One of the arguments he offered includes the side-benefits of women's empowerment, education opportunities, and family planning activities that take place in the garment industry, due to the concentration there of women.

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